

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-05 INR-10 L-03 ACDA-12  
NSAE-00 PA-01 SS-15 SP-02 ICA-11 TRSE-00 EB-08  
DOE-15 SOE-02 /097 W  
-----092546 070842Z /12

R 070756Z JUN 78  
FM USMISSION USNATO  
TO SECSTATE WASHDC 2128  
SECDEF WASHDC  
INFO JCS WASHDC  
DA WASHDC  
CINCUSAREUR HEIDELBERG GER  
USCINCEUR VAIHINGEN GER

C O N F I D E N T I A L SECTION 01 OF 02 USNATO 05756

SECDEF FOR OASD ISA, MR. MILLER, AND MRA&L, MR. SHARKEY;  
JCS FOR LTGEN GREGG

E.O. 11652: GDS  
TAGS: MARR NATO  
SUBJECT: TRANSFER OF US-OWNED ZWEIBRUCKEN-HUTTENHEIM  
(Z-H) PIPELINE SYSTEM TO NATO

REFS: (A) CINCEUR MSG ECJ4/7 8484, 221659ZMAY78;  
(B) 77 CINCEUR MSG ECJ4/7 2870, 181700ZFEB77; (C) 77  
SECDEF MSG 9880, 292159ZMAR77

SUMMARY: MISSION AGREES WITH ANALYSIS OF THE TENTATIVE  
CURRENT US OFFER TO NATO AND THE PROSPECTIVE NATO DECISION  
FOR ACCEPTANCE OF THE OFFER PER REF A. THIS MESSAGE PRO-  
VIDES ADDITIONAL MISSION COMMENTS APPROPRIATE TO A US DE-  
CISION TO CONFIRM THE OFFER. END SUMMARY.

1. IN REF A, EUCOM ANALYZES FROM FINANCIAL, MILITARY, AND  
PRACTICAL ASPECTS THE IMPACT OF A TRANSFER OF THE Z-H SYS-  
TEM TO NATO. IN PARTICULAR, EUCOM NOTES THAT DEACTIVATION  
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OF THE 97TH QUARTERMASTER POL BATTALION HAS DEPRIVED  
USAREUR OF THE WHEREWITHAL FOR A SUSTAINED WARTIME OPERA-  
TION OF THE Z-H SYSTEM.

2. FINANCIAL CONSEQUENCES OF THE TRANSFER OF THE Z-H SYS-  
TEM ARE APPROXIMATELY THOSE FORECAST IN REF B WHEREIN IT  
WAS STATED THAT NATO OPERATION OF THE SYSTEM COULD COST AS

MUCH AS \$756,000 ANNUALLY MORE THAN OPERATION BY THE US IN PEACETIME. LATEST FIGURES IN REF A INDICATE THAT THE INCREMENTAL COST WOULD AVERAGE SOME \$666,000 ANNUALLY OVER THE FIRST 10 YEARS. WE NOTE, HOWEVER, THAT THAT FIGURE INCLUDES SOME \$2 MILLION OF THE US SHARE IN THE INFRASTRUCTURE UPGRADE COSTS. WE DO NOT BELIEVE THAT THE INFRASTRUCTURE COSTS SHOULD BE CONSIDERED AGAINST ANNUAL O&M EXPENSES SINCE IT IS PROBABLE THAT THE INFRASTRUCTURE UPGRADE WOULD HAVE HAD TO BE ACCOMPLISHED WHETHER OR NOT THE TRANSFER TO NATO WAS ACCOMPLISHED. IT IS OBVIOUS, THEREFORE, THAT TRANSFER TO NATO WOULD RESULT IN US COST AVOIDANCE OF SOME \$6 MILLION IN INFRASTRUCTURE COSTS. IF, THEREFORE, THE ANNUAL \$660,000 IS REDUCED BY SOME \$200,000 OF ANNUAL INFRASTRUCTURE COSTS, THE REMAINING \$466,000 INCREMENTAL COST COMPARED TO \$6 MILLION COST AVOIDANCE WOULD REPRESENT SOME 15 YEARS OF OPERATION BEFORE SHOWING A LOSS. IT WOULD APPEAR, THEREFORE, THAT EVEN FROM A COST STANDPOINT, THE TRANSFER TO NATO WOULD BE BENEFICIAL TO THE US, AT LEAST DURING THAT PERIOD.

3. WE HAVE BEEN PARTICULARLY IMPRESSED BY THE EUCOM ARGUMENT THAT THE Z-H SYSTEM COULD NOT BE AUGMENTED TO FULL WARTIME USE WITHOUT MAJOR PERSONNEL REINFORCEMENT FROM CONUS. SUCH AN AUGMENTATION WOULD RUN COUNTER TO THE WORK WE HAVE DONE THROUGHOUT THE PAST YEAR ON NATO'S LONG-TERM DEFENSE PROGRAM CALCULATED TO THROW MORE OF THE WARTIME

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LOGISTIC BURDEN ONTO EUROPEAN SOURCES. IN ADDITION, THE TRANSFER OF THE SYSTEM TO NATO IS ENTIRELY IN LINE WITH US EFFORTS WITHIN NATO TOWARD RATIONALIZATION OF TASKS AND TOWARD THE PHILOSOPHY OF HOST NATION OPERATION OF LINES OF COMMUNICATION. THUS, THE TRANSFER WOULD APPEAR TO BE ENTIRELY WITHIN THE GUIDELINES AGREED TO BY DEFENSE MINISTERS AND AT THE MAY 1978 SUMMIT.

4. THE OWNERSHIP OF THE Z-H SYSTEM WOULD NOT APPEAR TO PRESENT ANY PROBLEMS FOR THE US. IN EFFECT, UNDER INFRASTRUCTURE RULES, NATO INFRASTRUCTURE FACILITIES WHICH ARE DECLARED SURPLUS TO NATO REQUIREMENTS ARE RETURNED TO HOST COUNTRIES SUBJECT TO NEGOTIATION OF RESIDUAL VALUE. RESIDUAL VALUE RECOUPMENT IS IN TURN REIMBURSED TO THE SOURCES WHEN THE INVESTMENT CAME. IN THE CURRENT CASE, AS NOTED IN PARA 3.D, REF A, THE Z-H SYSTEM WAS FUNDED AS FOLLOWS:

- A. DIRECT US FUNDS - \$1.6 MILLION.
- B. NATO RELOCATION FUNDS - \$15.4 MILLION.
- C. OCCUPATION DEUTSCHMARKS - \$7.7 MILLION.

BY NATO AGREEMENT, THE RELOCATION PORTION OF THE INVESTMENT HAS BEEN ASSIGNED TO US INVENTORY AND, CONSEQUENTLY, SOME TWO-THIRDS OF ANY RESIDUAL VALUE WOULD REVERT TO THE US WERE Z-H TO BE ABANDONED BY NATO AND RETURNED TO THE HOST NATION.

5. GIVEN THE ABOVE CONSIDERATIONS, AND THE FACT THAT, THROUGH THE EXCELLENT WORK OF EUCOM STAFF IN NEGOTIATING THE NATO AGREEMENT, THE FINANCIAL SITUATION OF THE TRANSFER IS SOMEWHAT MORE FAVORABLE THAN THAT PREDICTED IN REF

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C O N F I D E N T I A L SECTION 02 OF 02 USNATO 05756

B, MISSION RECOMMENDS FAVORABLE CONSIDERATION OF THE US OFFER TO NATO. OUR POSITION IS REINFORCED BY THE TERMS OF REF C WHICH INDICATED AGREEMENT IN PRINCIPLE WITH THE TRANSFER OF THE Z-H SYSTEM ON THE BASIS OF CONDITIONS AT THAT TIME, AND SUBJECT TO OBTAINING FAVORABLE CONSIDERATION FROM NATO OF CERTAIN US REQUIREMENTS. SINCE THOSE CONDITIONS HAVE BEEN MET, WE BELIEVE THAT BOTH US AND NATO INTERESTS WOULD BE BEST SERVED BY TRANSFER TO NATO AS EARLY AS POSSIBLE AND PREFERABLY BY THE END OF FY 1978.  
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## Message Attributes

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**Draft Date:** 07 jun 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
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**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
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**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014